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SENATE TAXATION

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To: David Hunter, Deputy Director
From: Dan Dodds, Senior Tax Policy Analyst
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Subject: Options for SB 210

The subcommittee of Senate Tax looking at SB 210 asked for estimates of the cost of several changes to the existing energy conservation credit. I have estimated costs for 2008 based on credits reported on 2005 income tax returns and using the HJR2 assumption of 28.5% growth in credit use from 2005 to 2008.

Increasing the Credit Limit

The credit currently is limited to \$500 per taxpayer. In 2005, credits were claimed by 23,949 taxpayers on 13,817 tax returns. Of these, 4,692 taxpayers claimed the maximum credit. Increasing the limit would not affect credits claimed by taxpayers under the maximum. If the maximum credit were increased, some taxpayers who claimed the old maximum would have claimed credits between the old and new maximums and some would have claimed the new maximum. Based on the distribution of credits below the current maximum, I assumed that a \$100 increase in the maximum credit would reduce the number of taxpayers claiming the maximum by 10%. The following table shows the increase in credits in 2008 from increasing the maximum credit to \$750, \$1,000, and \$1,500.

Cost of Increasing Maximum Credit

| <u>Maximum Credit</u> | <u>Increase in 2008 Credits</u> |
|---------------------------|-------------------------------------|
| \$750 | \$1,172,462 |
| \$1,000 | \$1,864,790 |
| \$1,500 | \$2,515,002 |

Making the Credit Refundable for Low Income Households

The credit currently is not refundable and can not be carried forward to another tax year. A total of 2894 taxpayers claimed credits that were more than their tax liability and had \$776,369 in unused credits. The subcommittee suggested limiting refundability of the credit to households with income below 150% of the federal poverty threshold to reduce the cost. Compliance and administration would be easier with a threshold based on

Montana adjusted gross income rather than total household income. To get thresholds of Montana adjusted gross income equivalent to 150% of the federal poverty threshold, I compared Montana adjusted gross income to total income on returns of married couples filing jointly or separately on the same form with total income less than \$19,720, which is 150% of the federal poverty threshold for two person households, and on all other returns with total income less than \$15,240, which is 150% of the federal poverty threshold for one person households. Montana adjusted gross income averaged 74% of total income. I therefore set 2005 thresholds for Montana adjusted gross income at \$11,280 for single taxpayers and married taxpayers filing separately on separate forms and at \$14,590 for married taxpayers filing jointly or separately on the same forms. In 2005, there were 661 taxpayers with Montana adjusted gross income below these thresholds who claimed credits that were more than their tax liability. Their total unused credits were \$226,365. Growing this amount to 2008 gives a total of \$290,798 that would be refunded.

Making the Credit Available to Business

There are 83,000 commercial, industrial, and agricultural buildings in Montana. Assuming that businesses would have the same participation rate as homeowners, the credit would be claimed for investments in 5.3% of these building each year or 4,399 buildings. If the \$500 maximum credit were claimed for each, which is likely, the cost in 2005 would have been \$2,199,500. Grown to 2008, this is \$2,825,574.